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To: Supervisor Don Knabe, Chairman
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From: William T Fujioka
Chief Executive Officer

A handwritten signature in black ink, appearing to be "W. T. Fujioka", written over a horizontal line.

SACRAMENTO UPDATE

Legislative Analyst's Office Releases Study of the Impact of the Federal Economic Stimulus Package on California

Overview

The Legislative Analyst's Office (LAO) released a report on the **Federal Economic Stimulus Package: Fiscal Effect on California**. The report focuses on the state aid component of the American Recovery and Reinvestment Act (ARRA) which consists of funding that can be used to address budget shortfalls, supplement existing state spending, and for competitive grants. The LAO estimates that California will receive over \$31 billion from the first two components and potentially billions more in competitive grants.

According to the LAO, a significant portion of the \$31 billion will be available to address the State's budgetary problems. Of this amount, the State's health programs will receive the largest share of these Federal funds, about \$9 billion, and education-related programs will receive nearly \$8 billion in additional Federal funds. Labor and workforce development and social services programs are estimated to receive about \$6 billion and \$3.5 billion, respectively.

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The State Trigger

The enacted FY 2009–10 State Budget contains a trigger to restore funding reductions for specific programs if sufficient Federal stimulus revenues are available to offset \$10 billion in State General Funds costs. The LAO estimates that \$8 billion would be available in FY 2008–09 and FY 2009–10 for this purpose. This analysis is consistent with the Department of Finance's preliminary estimate of Federal stimulus funding. The LAO also noted that if the economy continues to weaken, it may be possible to use additional Federal education funding to offset a greater amount of General Fund spending for State education programs. These funds are not currently included in the LAO's estimate.

The FY 2009-10 Adopted State Budget delegated authority to the State Treasurer and the Director of Finance to determine by April 1, 2009 whether the trigger will be activated. If they determine that Federal fiscal relief will reach the \$10 billion level by June 30, 2010, then nearly \$1 billion in reductions to various programs would be restored and a 0.125 percentage point increase in personal income tax rates will not go into effect.

Transportation

The LAO proposes that transportation funding under the State's discretion be dedicated entirely to the State Highway Operation and Protection Program (SHOPP). According to the Department of Public Works (DPW), this proposal will reduce the amount of funding available to DPW, the Los Angeles County region, and all other regions statewide.

Los Angeles County Metropolitan Transportation Authority (Metro) is expecting to receive \$438 million in ARRA highway funds pursuant to State proposed legislation that provides 62.5 percent of the total highway funding received in the State of California through ARRA to the regions and 37.5 percent of the total highway funding for Caltrans projects (including \$625 million for the SHOPP). Metro plans to distribute \$315 million of the \$438 million to local jurisdictions, including the County of Los Angeles. As reported in our Washington, D.C. Update of March 4, 2009, the County's share of the \$315 million is approximately \$32.6 million for the urbanized areas and \$12 million for the rural unincorporated areas. The allocation of ARRA funds to cities and counties will allow for many more quick contracting opportunities to stimulate the economy. Under the LAO recommendation, Metro will receive only \$216 million, reducing the County of Los Angeles' share to \$21.8 million for the urbanized areas and \$6 million for the rural areas.

Legislative Recommendations

The LAO indicates that the Legislature will need to ensure that the ARRA funds are used in ways that meet its priorities. The LAO recommends that the Legislature:

- **Recognize the Short-Term Nature of New Federal Funds.** Most of the State aid is intended to supplement current State spending. There is the risk, however, that higher levels of service will create ongoing expectations of State support once the funding expires.
- **Change State Law Where Required.** In certain instances, State law must be amended to access Federal Stimulus Funds. For example, a State law change is needed to repeal Medi-Cal semi-annual reporting for children to access the increased Federal Medical Assistance percentage.
- **Oversee Implementation of New Federal Spending.** The Legislature should use the budget process to monitor the State's revenue picture and take whatever actions are needed to use Federal funding to maintain a balanced FY 2009-10 State Budget. Similarly, the Legislature should use policy and budget subcommittee hearings to specify how new Federal funding is to be spent.

The LAO's report is available at:

http://www.lao.ca.gov/2009/bud/fed_stimulus/fed_stimulus_031009.pdf

We will continue to keep you advised.

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c: All Department Heads
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